

# *Office of the State Auditor*

## *Division of State Audit*

### Historical Society Bismarck, North Dakota

Audit Report for the  
Two-Year Period Ended June 30, 2006  
Client Code 701

*Robert R. Peterson*  
*State Auditor*



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## *Transmittal Letter*

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October 11, 2006

The Honorable John Hoeven, Governor  
Members of the North Dakota Legislative Assembly  
Merlan Paaverud, Director, Historical Society

We are pleased to submit this audit of the Historical Society for the two-year period ended June 30, 2006. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Allison Bader. Andrea Wike and Kristi Misek were the staff auditors. Fred Ehrhardt, CPA, was the audit supervisor and Paul Welk, CPA, was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2320. We wish to express our appreciation to Merlan Paaverud and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

Robert R. Peterson  
State Auditor

# *Executive Summary*

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## **INTRODUCTION**

The North Dakota Historical Society is governed by the State Historical Board. The Board consists of seven members who are appointed by the Governor. The Secretary of State, Parks and Recreation Department Director, Department of Transportation Director, Tourism Division Director of the Department of Commerce, and the State Treasurer are ex-officio members of the Board and shall take care that the interests of the state are protected. The Historical Society portrays the history of North Dakota through the collection, preservation, exhibition, and interpretation of significant and representative artifacts, documents, specimens, sites, buildings, and works of art. They operate museums and historic sites for public edification and enjoyment. The agency works to create a greater understanding of the history and prehistory of the state, and to enrich appreciation for the human and natural resources of North Dakota as they relate to the state's heritage.

## **RESPONSES TO LAFRC AUDIT QUESTIONS**

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The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

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### *1. What type of opinion was issued on the financial statements?*

Financial statements were not prepared by the Historical Society in accordance with generally accepted accounting standards so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unqualified opinion was issued.

### *2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?*

Yes.

### *3. Was internal control adequate and functioning effectively?*

Other than our findings addressing the "inventory segregation of duties weakness" (see page 15) and "state purchase card control weaknesses" (see page 16), we determined internal control was adequate.

*4. Were there any indications of lack of efficiency in financial operations and management of the agency?*

Other than our work addressing "website and online information improvements" (see page 19) there were no indications of lack of efficiency in financial operations and management of the Historical Society.

*5. Has action been taken on findings and recommendations included in prior audit reports?*

Other than our recommendation addressing "state purchase card control weaknesses" (see page 16), the Historical Society has implemented all recommendations included in the prior audit report.

*6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

Yes, a management letter was issued and is included on page 22 of this report, along with management's response.

#### **LAFRC AUDIT COMMUNICATIONS**

*1. Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

*2. Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The Historical Society's financial statements do not include any significant accounting estimates.

*3. Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

*4. Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

5. *Identify any serious difficulties encountered in performing the audit.*

None.

6. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

7. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

8. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance, Human Resource Management System (HRMS), and Retail Pro 8 (inventory application) are high-risk information technology systems critical to the Historical Society.

## *Background Information*

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The mission of the North Dakota Historical Society is to identify, preserve, interpret, and promote the heritage of North Dakota and its people.

The North Dakota Historical Society is the state's major historical agency and employs more than fifty full-time employees. The Society has facilities at two state museums located at the North Dakota Heritage Center in Bismarck and the Pembina State Museum, as well as fifty-six state historic sites including nine historic sites staffed from mid-May to mid-September: Camp Hancock, Chateau de Mores, former Governor's Mansion, Fort Abercrombie, Fort Buford, Fort Clark Trading Post, Fort Totten, Gingras Trading Post, and Whitestone Hill Battlefield.

The Society is organized into four divisions. All divisions are headquartered at the North Dakota Heritage Center in Bismarck.

The Historic Preservation Division provides for the preparation of a statewide historic preservation plan, and inventories, evaluates, and nominates sites for listing on the state and national registers of historic places. The Division also provides maintenance, repair, and operational control for all land and buildings in the custody of the State Historical Society of North Dakota, which includes fifty-six state historic sites.

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Historical Society includes:

- Historic Preservation Division
  - Museum and Education Division
  - State Archives and Historical Research Library Division
  - Support Services Division
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The Museum and Education Division presents the history of North Dakota through exhibits in the North Dakota Heritage Center and in branch museums, as well as through traveling exhibits. The Division is responsible for preserving and exhibiting the artifacts, and providing education outreach by interpreting the collections and work of the Society.

The State Archives and Historical Research Library Division preserves and creates accessible records of enduring value of North Dakota government and is responsible for acquiring and preserving other documentary holdings of the State Historical Society of North Dakota.

The Support Services Division provides general supervision of all programs and responsibilities of the agency through the office of the director.

More information about the agency can be obtained from the Historical Society's home page at: <http://www.discovernd.com/hist>.

The agency regularly reports to the North Dakota State Historical Board.



# ***Audit Objectives, Scope, And Methodology***

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## *Audit Objectives*

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The objectives of this audit of the Historical Society for the two-year period ended June 30, 2006 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the most important areas of the Historical Society's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the Historical Society and are they in compliance with these laws?
3. Are there areas of the Historical Society's operations where we can help to improve efficiency or effectiveness?

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## *Audit Scope*

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This audit of the Historical Society for the two-year period ended June 30, 2006 was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. To meet the objectives outlined above, we:

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## *Audit Methodology*

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- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and reviewed management's discussion and analysis of the financial statements.
- Performed detailed analytical procedures for expenditures and receipts.
- Tested samples of expenditures, journal vouchers, and correcting entries.
- Reviewed prior year audit workpapers.
- Interviewed appropriate agency personnel.
- Reviewed Historical Society written plans and applicable manuals.
- Observed Historical Society's processes and procedures.
- Reviewed North Dakota Century Code chapters 55-01, 55-02, 55-03, and the 2003 and 2005 Session Laws.
- Reviewed industry best practices through the use of Internet searches.

## ***Management's Discussion And Analysis***

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The accompanying financial statements have been prepared to present the Historical Society's revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

The following management discussion and analysis was prepared by Historical Society's management. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of this supplementary information to ensure it does not conflict with the knowledge we gained as part of our audit.

For the two-year period ending June 30, 2006, operations of the State Historical Society have been supported by a combination of special funds, federal funds, and general funds. Special funds for this biennium include bonds issued for the Heritage Center Archives and Chateau De Mores Interpretative Center expansion projects. Federal funds from the Department of the Interior partly support operations of the Historic Preservation Division. Other federal funds include project grants dedicated to the completion of specific projects of fixed duration. Grants have been received from the Bureau of Reclamation, Bureau of Land Management, National Historical Publications and Records Commission, the Institute of Museum and Library Services, and the North Dakota Humanities Council. General funds supplement the remainder of the agency's operations including historic site maintenance, equipment, and capital repairs. Other revenues during the audited period include concession sales from the museum store operations and donations to the agency gifts and bequest fund.

### ***FINANCIAL SUMMARY***

Revenues consisted primarily of federal funds. Other revenues during the audited period include concession sales, admissions, donations, and public service revenue including monies for copies and facility rent. Federal revenue received through Bureau of Reclamation, Transportation Enhancement, and Land and Water Conservation grants decreased due to completion of the renovation of the Carriage House located at the former Governor's Mansion and Chimney Park restrooms at Medora. Transfers from Building Authority increased during fiscal year 2006 due to the Heritage Center Archives expansion and Chateau De Mores Interpretive Center expansion projects. All other revenue remained fairly constant. Total revenues were \$2,072,240 for the year ended June 30, 2006 as compared to \$1,692,969 for the year ended June 30, 2005.

Total expenditures for the Historical Society were \$5,754,542 for the year ended June 30, 2006 as compared to \$5,203,747 for the prior year. Expenditures consist primarily of salaries and benefits and professional services. Professional services increased approximately \$792,000 during fiscal year 2006 due to the Heritage Center Archives expansion and Chateau De Mores Interpretive Center expansion projects. All other expenditures remained fairly constant.

### ***ANALYSIS OF SIGNIFICANT CHANGES IN OPERATIONS***

The legislature appropriated \$7,300,000 for the expansion of the Heritage Center Archives and Chateau De Mores Interpretive Center. These projects are on track and are expected to be completed during the 2005-2007 biennium.

### ***ANALYSIS OF SIGNIFICANT VARIANCES BETWEEN FINAL BUDGETED AND ACTUAL EXPENDITURES***

Pursuant to Senate Bill 2416 of the 59<sup>th</sup> Legislative Assembly, the legislature appropriated \$2,000,000 in special funds for the construction\expansion of the Chateau De Mores and Fort Abercrombie interpretative centers. The \$2,000,000 would have been obtained from debt which was to be repaid from federal, local, or donated funds. The legislature also provided that \$600,000 of the required federal, local, or donated funds responsibility, \$300,000 for each interpretative center, must be collected before the state historical society could begin the expansion of the interpretative centers. Since federal, local, or donated funds were not available, the \$2,000,000 appropriation was not utilized.

### ***MAJOR ACTIVITIES***

- The agency completed the planning process and successfully obtained bids for the expansion of the Chateau De Mores Interpretive Center and Heritage Center Archives expansion projects. Both projects are proceeding as planned. The Chateau De Mores Interpretive Center expansion is expected to be completed by May 2007 and the archives expansion is expected to be completed by June 2007.
- Developed preliminary plans for the expansion of the North Dakota Heritage Center Museum expansion for consideration by the 2007-2009 legislative assembly. The North Dakota Heritage Center expansion is included as an approved project in the Capitol Grounds Master Plan.
- As part of the 2005-2007 general fund appropriation, the State Historical Society received \$325,000 in support of a Cultural Heritage Grants Program. Thanks to the North Dakota Legislature, the funding for this program was increased by \$250,000 from the 2003-2005 biennium. These grants are

awarded to local, county, and tribal historical organizations on a competitive basis to assist with the enhancement of structures and programs at the local level throughout the state. The grant program continues to be a resounding success.

- The Society continues to make structural improvements at the historic sites and works to improve or increase public programming. Agency projects include: construction or expansion of the Chateau De Mores and Fort Abercrombie interpretative centers, increased public programming and projects at Fort Buford State Historic Site funded with a grant received from the North Star Caviar Corporation, restoration of the French gratitude train car located on the state capitol grounds, development of and fabrication of new exhibits for the Chateau De Mores and Camp Hancock interpretative centers, development and creation of the Corridor of Time exhibit to be located at the Heritage Center.
- Completed the most recent North Dakota History journal which featured the third in an annual series of articles highlighting interviews with recent state governors. The series began with an interview featuring former Governor John E. Davis and continued with William L. Guy and recognizes their contributions to the state of North Dakota.
- Documented the experiences of approximately 1,500 veterans through interviews, photographs, and other materials as part of the veteran's history project.
- The Society is working to make information about the agency and the state's collections more accessible to the public on the web. The society has also increased its use of GIS technology in mapping sites and other archeological findings. While we have increased the use of technology in these areas, we haven't begun to touch the surface of what could be done if additional resources and staff were available.
- Major archeological digs were completed at Menoken Indian Village State Historic Site, Double Ditch State Historic Site, and at Beacon Island near New Town.
- Completed the expandable compact storage shelving project located in the collections area of the Heritage Center. This project allows the agency to better utilize the collections storage area.

# *Financial Statements*

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## **STATEMENT OF REVENUES AND EXPENDITURES**

<b><u>Revenues and Other Sources:</u></b>	<b><u>June 30, 2006</u></b>	<b><u>June 30, 2005</u></b>
Federal Revenue	\$ 681,515	\$ 995,259
Sales and Services	338,260	426,760
Contributions and Private Grants	116,466	77,001
Admissions	98,320	107,843
Licences, Permits, and Fees	34,619	34,500
Lease/Rental of Rooms	20,310	16,028
Other Revenue	35,976	35,578
Transfers In	746,775	
<b>Total Revenues and Other Sources</b>	<b><u>\$2,072,240</u></b>	<b><u>\$1,692,969</u></b>
 <b><u>Expenditures and Other Uses:</u></b>		
Salaries and Benefits	\$3,187,346	\$3,047,891
Professional Services	1,017,879	226,083
Grants, Benefits, and Claims	364,497	343,460
Supplies	296,802	358,202
Extraordinary Repairs	156,386	325,892
Travel	119,120	128,732
Operating Fees and Services	93,793	140,085
Printing	72,016	83,980
Utilities	66,266	75,525
IT - Data Processing	64,799	66,316
Equipment Under \$5,000	60,124	102,357
IT - Communications	43,816	48,570
Other Expenses	26,426	29,417
Professional Development	28,074	34,855
Repairs	26,748	37,432
Insurance	26,555	16,713
Equipment Over \$5,000	25,964	119,976
Rentals/Leases – Equipment	14,016	12,780
Rentals/Leases – Buildings/Land	5,815	5,484
Transfers Out	58,100	
<b>Total Expenditures and Other Uses</b>	<b><u>\$5,754,542</u></b>	<b><u>\$5,203,747</u></b>

## STATEMENT OF APPROPRIATIONS

For The Fiscal Year Ended June 30, 2006

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Wages	\$ 5,633,286	\$ 30,000	\$ 5,663,286	\$2,711,545	\$ 2,951,741
Operating Expenses	1,508,706	13,425	1,522,131	679,672	842,459
Capital Assets	8,282,319	260,000	8,542,319	932,383	7,609,936
Capital Construction Carryover		170,000	170,000	32,472	137,528
Grants	1,300,000	250,000	1,550,000	301,912	1,248,088
Cultural Heritage Grants	325,000		325,000	101,721	223,279
Yellowstone-Missouri-Fort Union Commission	4,492		4,492		4,492
Lewis & Clark Bicentennial Medal of Honor Monument	932,420		932,420	415,887	516,533
	35,000		35,000	35,000	
<b>Totals</b>	<u>\$18,021,223</u>	<u>\$723,425</u>	<u>\$18,744,648</u>	<u>\$5,210,592</u>	<u>\$13,534,056</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 8,094,058	\$170,000	\$ 8,264,058	\$3,685,471	\$ 4,578,587
Other Funds	9,927,165	553,425	10,480,590	1,525,120	8,955,470
<b>Totals</b>	<u>\$18,021,223</u>	<u>\$723,425</u>	<u>\$18,744,648</u>	<u>\$5,210,592</u>	<u>\$13,534,056</u>

### Appropriation Adjustments:

The increase in the Salaries and Wages (\$30,000) and Operating (\$13,425) lines includes increased spending authority for carryover federal funds granted by the Library of Congress to complete the Veterans' Oral History Project. The adjustment was properly approved by the Emergency Commission.

The increase in the Capital Construction Carryover line (\$170,000) was authorized by section 54-44.1-11 of the NDCC that allows for unexpended capital construction budgets to be carried forward to the next biennium. The adjustment was properly approved by the Carryover Committee.

The increase in the Capital Assets line includes increased spending authority to accept federal funds from the Department of

the Interior related to the Save America's Treasures Grant program with matching funds approved for carryover pursuant to NDCC 54-44.1-11 for construction of a protective shelter for the French Gratitude Train Box Car located on the capitol grounds (\$80,000). The increase also includes increased spending authority to accept federal funds from a Transportation Enhancement Grant passed through the Department of Transportation related to the expansion and renovation of the Chateau de Mores Historic Visitor Center in Medora (\$180,000). The adjustment was properly approved by the Emergency Commission.

The increase in the Grants line (\$250,000) includes additional federal spending authority to accept federal funds from the Save America's Treasures Grant program for the emergency archaeological excavation of Beacon Island Agate Basin site at Lake Sakakawea. The adjustment was properly approved by the Emergency Commission.

#### **Expenditures Without Appropriations Of Specific Amounts:**

Historical Society fees (\$10,820) have a continuing appropriation authorized by NDCC section 55-03-04 (Fund 327).

Gifts and Bequests (\$68,943) have a continuing appropriation authorized by NDCC section 55-01-04 (Fund 415).

Concessions (\$453,338) have a continuing appropriation authorized by NDCC section 55-02-04 (Fund 603).

Insurance Recoveries Fund (\$5,456) has a continuing appropriation authorized by NDCC section 54-44.1-09.1 (Fund 392).

**For The Biennium Ended June 30, 2005**

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Wages	\$ 5,078,190	\$ 240,000	\$ 5,318,190	\$ 5,134,378	\$ 183,811
Operating Expenses	1,270,004	122,000	1,392,004	1,258,430	133,574
Capital Assets	2,849,544	1,259,000	4,108,544	1,791,846	2,316,698
Capital Construction Carryover		38,536	38,536	38,536	
Grants	1,300,000		1,300,000	592,577	707,423
Cultural Heritage Grants	75,000		75,000	75,000	
Yellowstone-Missouri-Fort Union Commission	4,492		4,492	4,492	
Lewis & Clark Bicentennial	923,746	257,000	1,180,746	1,085,315	95,431
Veterans' Oral History Project	150,000		150,000	80,763	69,237
<b>Totals</b>	<u>\$11,650,976</u>	<u>\$1,916,536</u>	<u>\$13,567,512</u>	<u>\$10,061,337</u>	<u>\$3,506,175</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 7,259,934	\$ 295,536	\$ 7,555,470	\$ 7,379,984	\$ 175,486
Other Funds	4,391,042	1,621,000	6,012,042	2,681,353	3,330,689
<b>Totals</b>	<u>\$11,650,976</u>	<u>\$1,916,536</u>	<u>\$13,567,512</u>	<u>\$10,061,337</u>	<u>\$3,506,175</u>

**Appropriation Adjustments:**

The increase to the Capital Assets line includes additional federal spending authority for the completion of the Fort Buford project. The adjustment was properly approved by the Emergency Commission. (\$901,000)

The increases to the Salaries and Wages (\$120,000), Operating Expenses (\$92,000), and Capital Assets (\$8,000) lines include additional federal spending authority for the continued development and enhancement of a geographic mapping system for cultural sites. The adjustment was properly approved by the Emergency Commission.

The increases to the Salaries and Wages (\$120,000) and Operating Expenses (\$30,000) lines include additional federal spending authority for database development of collections for



which the Historical Society is curator. The adjustment was properly approved by the Emergency Commission.

The increase to the Capital Assets line includes additional federal spending authority for building improvements at the Gingras State Historic Site near Walhalla. The adjustment was properly approved by the Emergency Commission. (\$250,000)

The increase in Capital Construction Carryover line (\$38,536) was authorized by section 54-44.1-11 of the NDCC that allows for unexpended capital construction budgets to be carried forward to the next biennium. The adjustment was properly approved by the Carryover Committee.

The increase to the Capital Assets (\$100,000) and Lewis and Clark Bicentennial (\$257,000) lines include a carryover appropriation pursuant to Senate Bill 2020, section 5 of the 58<sup>th</sup> Legislative Assembly for cultural heritage grants and completion of the confluence center exhibits and the era of change exhibits.

#### **Expenditures Without Appropriations Of Specific Amounts:**

Historical Society fees (\$18,929) have a continuing appropriation authorized by NDCC section 55-03-04 (Fund 327).

Gifts and Bequests (\$71,074) have a continuing appropriation authorized by NDCC section 55-01-04 (Fund 415).

Concessions (\$1,084,149) have a continuing appropriation authorized by NDCC section 55-02-04 (Fund 603).

Insurance Recoveries Fund (\$19,999) has a continuing appropriation authorized by NDCC section 54-44.1-09.1 (Fund 392).

## *Internal Control*

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In our audit for the two-year period ended June 30, 2006, we identified the following areas of the Historical Society's internal control as being the most important:

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### **Internal Controls Subjected To Testing**

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- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls surrounding the computer-based inventory (Retail Pro) application.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered significant. We concluded that internal control was not adequate noting certain matters involving internal control and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect Historical Society's operations or ability to record, process, summarize, and report financial data consistent with the assertions of management in financial statements. Reportable conditions are described below. We also noted other matters involving internal control that we have reported to management of the Historical Society in a separate letter dated October 11, 2006.

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### **Finding 06-1**

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#### ***INVENTORY SEGREGATION OF DUTIES WEAKNESS***

Controls surrounding inventory are not adequate. The Historical Society operates museum stores at the Heritage Center and five historic sites. Perpetual inventory records are maintained through the Retail Pro application for inventory at the Heritage Center and three of the historical sites, while manual records are maintained at the three remaining sites. One individual has control of inventory records, custody of inventory, and prepares miscellaneous adjustments to inventory for all museum stores. The same individual also collects revenue and prepares miscellaneous cash register adjustments at the Heritage Center museum store location.

Proper segregation of duties requires perpetual and manual inventory records be maintained by an individual with duties independent of custody of inventory, revenue collections, and cash register adjustments.

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Audit Recommendation  
and Agency Response

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**Recommendations:**

We recommend perpetual and manual records be maintained by an individual with duties independent of custody of inventory, revenue collections, and cash register adjustments.

***Historical Society Response:***

*While we concur with the audit recommendation, the size of our store operation limits our ability to properly segregate duties. Proper segregation of duties would require us to hire additional museum store staff or have non-museum store staff assist with store operations. We don't believe these are viable options because it wouldn't be cost effective to hire additional staff and it would be inappropriate to use non-museum store staff to assist with store operations as these staff are needed to perform other duties that are critical to the operation of the society.*

*Additional controls were previously put in place to help compensate for the inability to have proper segregation of duties. These controls, which are still in place, include: the creation of a Refund Form which is to be signed by store customers and is kept to support refund adjustments, documentation supporting inventory adjustments is maintained for the auditors review, the person maintaining the inventory system does not count merchandise when it arrives, and the store managers involvement in counting inventory at year end is limited. We will continue to work with the auditors to implement controls which will help safeguard the state's assets.*

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Finding 06-2

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**STATE PURCHASE CARD CONTROL WEAKNESSES**

During our review of state purchase card internal control procedures, several weaknesses were noted.

- Individual purchase card statements were not reconciled to receipts and were not consistently approved by an independent person knowledgeable of items purchased.
- We could not determine if the reconciliation of the individual statements to the agency-wide statement was performed by an independent individual.
- Eighteen instances were noted of purchase card charges not supported by receipts.

- Purchase card expenditures were noted for which only the purchase card receipt was available to the reviewer. The purchase card receipt does not include the details of the purchase, therefore, does not allow the reviewer adequate support to determine the validity of the purchases.

The Office of Management and Budget (OMB) purchase card manual and proper internal controls require adequate support, reconciliation, and review and approval of purchase card activity.

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Audit Recommendation  
and Agency Response

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**Recommendation:**

We recommend the Historical Society strengthen controls over purchase card transactions to include: an independent reconciliation and approval of the individual statements by an appropriate person; review and approval of the agency-wide statement by an appropriate person; and adequate supporting documentation.

***Historical Society Response:***

*The procedures listed below were implemented upon notification by the auditors that existing purchase card internal control procedures were insufficient. Individuals not complying with purchase card procedures may be subject to disciplinary action which includes the removal of individual's purchase card.*

- *Individual purchase cardholder must reconcile and attach receipts to monthly statement, sign statement, and submit the information to the divisional contact person.*
- *Divisional contact person must initial individual statement indicating that receipts have been attached and reconcile to the purchase card statement.*
- *Supervisor must initial purchase card statements approving purchases.*
- *Support services staff person will review individual purchase card statements to make sure they reconcile to the overall agency statement.*

## *Compliance With Legislative Intent*

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In our audit for the two-year period ended June 30, 2006, we identified and tested Historical Society's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

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### Legislative Intent Subjected To Testing

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- Collection of proper statutory rates relating to revenue of excavation permits and report filing fees (NDCC section 55-03-01).
- The use of the following legally restricted funds:
  - Gift and Bequest fund (NDCC section 55-01-04).
  - Concession fund (NDCC section 55-02-04).
  - Revolving fund which is restricted for purchase and care of collections (NDCC section 55-03-01.1, 55-03-04, 55-01-02).
- Proper use of the State Treasurer (State Constitution, Article X, Section 12.).
- Compliance with appropriations and related transfers (2001 Session Laws chapter 20 and 2003 Session Laws chapter 41).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Proper use of outside bank accounts and proper authority for investments outside the Bank of North Dakota.
- Compliance with fixed asset requirements including record keeping, surplus property, lease and financing arrangements in budget requests, and lease analysis requirements.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Historical Society in a separate letter dated October 11, 2006.

# Operations

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Our audit of the Historical Society identified the following areas of potential improvements to operations:

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Operational  
Improvement 06-1

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## **WEBSITE AND ONLINE INFORMATION IMPROVEMENTS**

### **Observation:**

We reviewed the Historical Society's website focusing on areas of greatest public interest. We identified significant resources not currently available online.

The Historical Society identified various areas for improvement including indexes of early marriage records, pioneer biography files, newspapers, oral history project files, veteran's history project files, photographs, film, and video. The Society's vision also includes a searchable photograph database, film, and video clips. In addition, web access will include digital images of historical and archeological artifacts as well as enhanced information on historic sites including regional attractions and activities.

### **Assessment:**

Outside of the State Historical Society's vision, we identified several short-term improvements in our review.

There is recent public interest in genealogy research. The Minnesota Historical Society developed a "frequently asked questions" (FAQ) section which outlines basic steps to research family history including a description of procedures to follow and information to gather. The Historical Society could provide guidance to the public in researching genealogy by incorporating a similar FAQ section to its website.

The oral history information was last updated in 1996 and only mentions the availability of a reference index. The Historical Society's vision includes providing the oral history index online; however, it would be more beneficial to include manuscripts and possibly audio recordings of the interviews online. Several other web pages were also noted to be outdated.

The Historical Society website includes photos of major exhibits and a virtual tour of the Heritage Center online. However, it contains minimal pictures of the state's historic sites. The website needs additional pictures of display exhibits at the sites along with detailed online site maps and state location maps for all historic sites. Historical site virtual tours would also be beneficial to the general public.

Forms are required when requesting information and other services from the Historical Society. Currently, only some of the required forms are fillable (can be filled out on-line). Fillable forms in PDF format increase user friendliness of the website by allowing users to fill the forms online, save and print, or e-mail the forms to the Society.

***Operational Improvement:***

The Historical Society's vision will provide valuable online searchable information to the public if they can obtain the necessary resources to make the noted improvements. The Historical Society should consider incorporating our identified short term improvements to the website within the vision of the Society's website.

***Historical Society Response:***

*The State Historical Society concurs with the operational improvement recommendation. As the auditors observed during their review, the agency is aware that there are many areas where our website and online services can be significantly enhanced or expanded. We will continue to request additional funding so we can hire staff and purchase the equipment necessary to enhance and expand these services.*

## ***Prior Recommendations Not Implemented***

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Prior recommendations have been implemented with the exception of the following:

### **Background**

During our review of state purchase card internal control procedures, several weaknesses were noted.

- Individual purchase card statements were not reconciled to receipts and were not consistently approved by an independent person knowledgeable of items purchased.
- We could not determine if the reconciliation of the individual statements to the agency-wide statement was performed by an independent individual.
- Purchase card expenditures were noted for which only the purchase card receipt was available to the reviewer. The purchase card receipt does not include the details of the purchase, therefore, does not allow the reviewer adequate support to determine the validity of the purchases.

The Office of Management and Budget (OMB) purchase card manual and proper internal controls require proper support, reconciliation, review, and approval of purchase card activity.

### **Recommendation**

We recommend the Historical Society strengthen controls over purchase card transactions to include: an independent reconciliation and approval of the individual statements by an appropriate person; review and approval of the agency-wide statement by an appropriate person; and adequate supporting documentation.

### **Status**

Not Implemented. See our recommendation addressing “state purchase card control weaknesses” (page 16).



# **Management Letter (Informal Recommendations)**

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October 11, 2006

Merlan E. Paaverud, Jr., Director  
State Historical Society  
612 E. Boulevard Avenue  
Bismarck, North Dakota 58505-0830

Dear Mr. Paaverud:

We have performed an audit of the Historical Society for the two-year period ended June 30, 2006, and have issued a report thereon. As part of our audit, we gained an understanding of the Historical Society's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures, or noncompliance with laws and regulations which may exist. We aim to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above we noted certain conditions that we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status as non-reportable conditions.

The following present our informal recommendations.

## **OPERATIONS**

### **Informal Recommendation 06-1:**

We recommend the Historical Society develop procedures for reviewing fees charged for services and materials provided to the public to ensure recovery of costs in providing the related service and material.

Informal Recommendation 06-2:

We recommend the Historical Society utilize the ConnectND receivables module for management of accounts receivable and the ConnectND projects module for monitoring project budgets.

**GENERAL**

Informal Recommendation 06-3:

We recommend the Historical Society properly approve and support transactions processed in the ConnectND general ledger and all payroll changes.

**CASH**

Informal Recommendation 06-4:

We recommend the Historical Society restrictively endorse checks immediately upon receipt.

**PAYROLL**

Informal Recommendation 06-5:

We recommend the Historical Society have a designated official sign the payroll register monthly to validate employee's classification and rate of pay.

Management of Historical Society agreed with these recommendations.

I would encourage you to call me or an audit manager at 328-2241 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

Allison J. Bader  
Auditor in-charge